MART® 84

November 1984

Business Ideas Today's Retailer Needs to Know

A Gordon Publication

Home Computing Retailer
New Hardware/Software Trends Are Emerging

RETAILING 84

- The Nation's Leading Electronics & Appliance Retailers
- Consumer Advertising Review

APPLIANCES 84

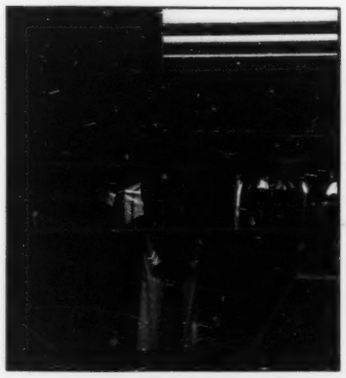
- '84 Sales Strong for Room Air Conditioners
- The Floor-care Market: Hand-held Vacs Proliferate

ELECTRONICS 84

- Market Analysis: Telephones & Accessories

The Top 15 Retailers

Spotlight:
The Federated Group's Kirk Keys



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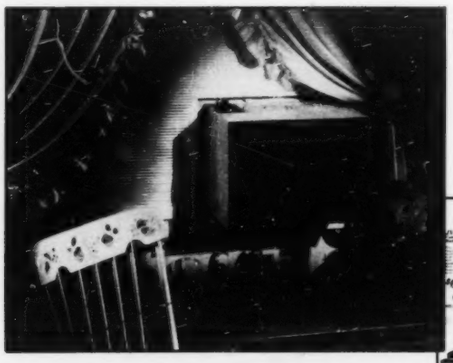

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The nation's leading retailers of home electronics and major appliances

Implementing a wide range of retailing, marketing and merchandising strategies, the nation's leading retailers of home electronics and major appliances appear to have struck a responsive chord with the consumer in this year of revitalized consumer spending.

A number of the larger nationwide chains have begun catering to a better informed, more quality conscious, well-heeled consumer with less and less time to spend shopping in retail stores. While regional and smaller retail operations, especially privately owned family businesses and closely held corporations, are not quite as comprehensive and well articulated in their strategies on the whole, the leading smaller chains are also responding in their own ways to the quickening pulse of the market.

Following is a look at the nation's 15 leading retailers of home electronics and major appliances. They were selected by MART's editors based not only on their sales volumes but also on merchandising creativity and impact on their local market areas. (See accompanying box.)

Sears, Roebuck & Co.

As the world's largest retailer, Sears, Roebuck and Company's Merchandise Group posted impressive gains this year, including an exciting second quarter during which net income jumped 42%. The hoopla was attributed to Sears' Store of the Future program, a company-proclaimed "new era of merchandising excellence" initiated last year at its new King of Prussia, PA store. Currently earmarked for the program is $1.7 billion in capital expenditures for construction of 62 new stores and remodeling of more than 600 existing stores.

Last year, seven new stores were built and five were remodeled. By year's end, the retailing giant planned to open 14 stores and remodel 85.

The Store of the Future, the company said, "assumes that the buyer's influence is now more consistently focused and effective than ever before." The concept is a "totally customer-oriented approach to merchandising" using high impact graphics and logical product groupings to characterize the new look.

Sales of home electronics in the new configuration have been "very good," according to a Sears spokesperson. A "wall of eyes" presents a logical feature benefit lineup of portable TV sets from opening price points to top-of-the-line.

"We feel it's important to keep pace with industry innovation and to maintain a competitive posture in pricing," the company source said. "Because electronics merchandise changes so rapidly, it's important to be in the forefront of the evolutionary process."

Improved customer service also was planned at Sears this year. A faster price look-up system was to be installed at 704 stores by year's end. Along with the redesign of central aisle cashier locations, express package pick up at dock areas and mechanized credit approval, the improvements were directed at cutting the average customer transaction time from three minutes to 90 seconds.

Sears was founded in 1893 as a mail order watch company. It eventually developed its famous, voluminous catalog to sell a comprehensive line of hard and soft consumer goods primarily to rural America. The company did not enter the retail business until 1924, when the automobile and the growth of the cities convinced company officials to diversify their means of doing business. In 1983, domestic retail sales were just over 72% of total domestic net sales.

William I. Bass, formerly senior executive vice president responsible for all store operations since 1982 and a 34-year Sears veteran, was elected in August to replace Edward A. Brennan as chairman and CEO of Sears Merchandise Group. Brennan, who headed the group since 1981, was elected president of the parent corporation.

K mart

The nation's second largest retail chain, K mart, also has developed plans to undergo strategic changes on a mammoth scale. It is spending $430 million in capital funds in 1984, a budget which includes funds to open 14 new stores and remodel 900 existing ones.

K mart's Home Electronics Center was one of several departments slated to become "stores-within-a-store." Early in the year, over 800 were reported already in operation with 650 more scheduled for remodeling. The departments were set to be carpeted, and merchandise fixtures were to be upgraded, all to support a storewide move to upgrade merchandise in a shift to national brands and better quality private label goods. It appeared the company largely had abandoned its prior exclusive commitment to being a major discounter of low-ticket, low-margin items, although price was still a major concern, according to industry observers.

By upscaling its product lines, store atmosphere and advertising, K mart reportedly hopes to attract more affluent shoppers and to sell more higher-priced items to its long-standing middle-class, blue-collar clientele.

With an 18% increase in this year's advertising budget, K mart reportedly spent $20 million on television in connection with the Summer Olympics. The broadcast campaign saw a strategic shift from a product focus to an institutional theme.

In the print arena, the chain reportedly switched from touting loss leaders to more higher-priced items.

"We're way ahead on innovative projects and techniques," said Bernard Fauber, chairman. "We're investing a lot in new merchandising that will pay off handsomely in the long run."

Circuit City Stores

Circuit City Stores, Inc., the former Wards Co. renamed last June to identify with its principal business, is the nation's largest consumer electronics specialty retailer. With 15 new units added in 1984 for a total of 98 stores, the company expects to achieve sales of $500 million in fiscal 1985.

About 65% of the 35-year-old firm's business was from 38 Circuit City stores and 15 Circuit City Superstores, which are larger outlets offering a wider selection of products, including major appliances. The company planned this year to add more Superstores in Nashville, Knoxville, Charleston, SC, Louisville, Charlotte and Hampton, VA. In most cases they would replace smaller existing Circuit City stores. The stores are located primarily in the Southeast and the Washington, DC area.

The firm, whose shares were listed on the New York Stock Exchange Jun. 21, acquired 11 Lafayette stores in the metro New York area in a

[Continued on page 12]

15 Top U.S. Electronics/Appliance Retailers

These stores were selected by MART's editorial staff not only for their high sales volumes in consumer electronics and major appliances but also for their merchandising creativity and impact on their local market areas.

Rank	Company	1983 Total Sales Volume (millions)	Number of Stores as of Dec. 1984	President
1	Sears, Roebuck & Co. Sears Mdse. Group Chicago, IL	$25,089	805	William I. Bass
2	K mart Corp. Troy, MI	$16,596	2,225	Samuel G. Leftwich
3	Circuit City Stores, Inc. Richmond, VA	$246	113	Alan L. Wurtzel
4	Montgomery Ward & Co. Chicago, IL (subsidiary of Mobil Oil Corp.)	$6,300	367	Stephen L. Pistner
5	Highland Appliance Co. Taylor, MI	$260	32	David Mondry
6	Silo Philadelphia, PA (subsidiary of Cyclops Corp.)	$250	116	Barry H. Feinberg
7	Wal-Mart Stores, Inc. Bentonville, AR	$4,670	742	David D. Glass
8	R.H. Macy & Co. New York, NY	$3,489	96	Mark S. Handler
9	American of Madison Madison, WI	$115	4	George Rule
10	Lechmere, Inc. Woburn, MA (subsidiary of Dayton Hudson Corp.)	$227	8	C. George Scala
11	Newmark & Lewis Hicksville, NY	$85	26	Richard Lewis
12	Caldor, Inc. Norwalk, CT (div. of Associated Dry Goods Corp.)	$1,100	103	David P. Williams III
13	Trader Horn Hasbrouck Heights, NJ	$90	12	Edward Navien
14	Fretters Livonia, MI	$61	25	Oliver Fretter
15	Gemco Buena Park, CA	$85 (est)	53	Larry Del Santo

The nation's leading retailers of

[Continued from page 9]
merger with the now defunct Lafayette Radio Electronics Corp. in 1981. Plans call for expansion of the division to 20 stores.

The company also operates 39 licensed departments in Zodys stores in California and Nevada, and two Zodys outlets in Los Angeles. These operations accounted for about 25% of sales last year. Video and TV accounted for nearly half of last year's sales. Major appliances accounted for some 15%.

The company, which began in Richmond in 1949 selling TV sets by offering free home demonstrations, announced plans to establish a major operational and distribution center in Atlanta in preparation for its expansion as a "major presence" in Alabama, Mississippi and Louisiana. According to its annual report, the company also plans to enter markets in North and Central Florida from Sarasota to Jacksonville.

"As it expands, the company is able to enter a market with a preeminent store presence — based on Superstores of up to 40,000 sq. ft., appropriate numbers of the smaller Circuit City stores or a combination of both," the report said. "It also is able to invest in print and broadcast advertising programs of a quality and intensity that are typically unique in the marketplace. This dominant positioning in facilities and promotion, combined with superior pricing and customer services permits (the firm's) operations to capture their targeted, dominant market share in a fragmented marketplace in very little time."

The company defines dominance in two ways. First, it seeks to have a share of business 50% larger than the nearest competitor. Secondly, it aims at achieving "the highest consumer awareness by far" among competitors in its markets.

Montgomery Ward & Co.

In just over three years, President Stephen L. Pistner (pronounced PIES-ner) has turned around Montgomery Ward & Co., the nation's sixth largest retailer. It had been so mired in red ink that parent Mobil Oil Corp., which acquired the 112-year-old business in 1974, was believed to be looking for a buyer. Now there are no plans to sell, a Mobil spokesperson was quoted in recent months.

After three successive years of losses, Montgomery Ward earned $40 million after taxes on sales of $6.1 billion in 1983, a performance that is expected to be "clearly stronger" this year, according to management.

The company president has implemented changes on many fronts. For one, Pistner has curtailed sales of private-label appliances in order to sell more brand name goods.

"The day of Montgomery Ward's taking what's available is over," Pistner told a St. Paul, MN newspaper reporter earlier this year. "Every item that's private label, every item that's available here, has to be something our own people want, or we're not going to accept it."

The company's "Chamber of Horrors," a display at corporate headquarters in Chicago designed to dramatize to buyers the need for quality products, was closed in recent months, apparently after buyers got the message. An outside market research firm now conducts consumer surveys to see what brands and styles customers want.

There also is a program to expand inventory and space for appliances and electronics, among other lines, with the intent to boost sales of the designated products and then to open specialty stores to carry those goods, according to a *New York Times* article last July. "The result," Pistner told an interviewer for the *Times*, "should give us specialty businesses as good as the best appropriate specialty stores."

The former president of Dayton Hudson Corp., Target Stores and Team Electronics, Pistner has closed more than 50 Montgomery Ward locations, opening others to give the mammoth retailer 20 fewer stores than it had in 1980. Staff has been cut by 23,000 people to 74,000. And to cut costs even further, the president has centralized all merchandising, buying and advertising at headquarters, giving Montgomery Ward greater clout in wholesale and media purchasing.

What merchandising technique works best for Montgomery Ward's appliance and electronics lines? A company spokesperson said there is no single factor that can be cited.

"We believe that an informed sales staff available to help the customer make the right selection from a wide assortment of merchandise is certainly a key element. So is a good back up service organization and credit availability. So is an attractive and comfortable shopping environment," the company official told MART.

"Of vital importance is listening to the consumer and offering good products at prices that represent a real value," he said.

Highland Appliance Co.

Founded by Harry Mondry in 1933 in Highland Park, MI, the primary income source at Highland Appliance Co. Inc. was from servicing washers and vacuum cleaners. In 1951, Mondry's sons, David and Eugene, came to the helm, and a second store was opened.

This year, the family-owned business is expected to see sales of $360 million and $500 million in 1985 with the firm's entry into Chicago and Houston, according to Eugene Mondry.

Silo

Philadelphia-based Silo, a division of steel producer Cyclops Corp., sells coast-to-coast through a chain of retail appliance, TV and audio stores under the names Silo, Downing's and Appliance TV City. Some 36 new stores were planned to open by year's end. The company expected a 38% increase in sales this year, with about 63% of total sales in consumer electronics and 37% in major appliances.

Growth has stemmed from the firm's basic philosophy of displaying the largest selection of brand name TV sets, major appliances and audio equipment at the lowest possible prices.

"Price and selection put us head and shoulders above the rest of the market," according to Michael O'Hara, vice president of marketing and sales promotion. For example, O'Hara pointed out that customers are impressed with being able to see a showroom with more than 190 TV sets tuned to the same channel.

Founded in 1946 by Sidney A. Cooper, Silo began opening multiple discount stores in 1954. By 1962 five stores were in operation, and the company went public. Denver-based Downing's was acquired in 1970. Phoenix-based Appliance TV City was purchased in 1971. Silo itself was acquired by Cyclops in 1980.

Wal-Mart Stores

Industry observers speculate that fast-growing Wal-Mart Stores Inc. may well surpass K mart to become the nation's second largest retailer if the Bentonville, AR firm's expansion continues at its current pace, although that rate was slowed temporarily for a period earlier this year. An estimated 110 new stores were to open in 1984, and 91 stores were opened in 1983. At latest count in early October, there were 705 stores in operation in 20 states, mainly in small communities in the South and the Midwest.

Most stores offer hardgoods, softgoods and a variety of other merchandise, including electronics and small appliances. Last year, Wal-Mart opened its first Sam's Wholesale Clubs, warehouse operations in metropolitan markets targeting the

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